The Proposed Structure of India's New Income-tax Bill, 2025

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Background

In July 2024, India's Finance Minister announced that a comprehensive review of the existing Income-tax Act, 1961 (the "**IT Act**") would be undertaken with the intent to make the tax law simple and to minimize tax controversy. The Finance Minister introduced the Income-tax Bill, 2025 (the "**Tax Bill**") in Parliament on February 12, 2025. Once enacted, the Tax Bill will become effective from April 1, 2026 and replace the IT Act that has been in place for over sixty (60) years.

A Parliamentary Select Committee (the "**Committee**") will be formed to deliberate on the Tax Bill, and the Committee will be required to submit its report on the first day of the next parliamentary session (i.e., July 2025). The Indian government will consider the Committee's report to revise the Tax Bill, which will then proceed to Parliament for approval in both houses, followed by the President's assent to become law.

Overall structure of the Tax Bill

We have summarised below some of the key features of the Tax Bill.

A. Chapters and sections:

- The Tax Bill preserves the familiar chapter structure, heads of income, substantive provisions, and the assessment and appeal procedures. The Finance Act for each year will continue to set the tax rates for that particular year. <u>However, the number of sections in the Tax Bill has been reduced from 8191 to 536, and the number of chapters have been reduced from 47 to 23</u>.

- Lengthy sentences in certain sections and subsections of the IT Act have been broken down into clauses in the Tax Bill to improve readability. However, there are instances where the Tax Bill continues to refer to provisions from the IT Act, such as the definitions of "income" and "infrastructure facility." Additionally, there are various cross-references to different schedules and tables within the Tax Bill, which may be a bit cumbersome to follow.

- The concept of an "assessment year" has been done away with, and the term "previous year" is now being referred to as the "tax year." In the IT Act, the term "notwithstanding," which was used in many provisions to override other tax provisions, has been replaced with the term "irrespective." Further, the term "in accordance with" have been replaced with "as per," and "as may be prescribed" has been replaced with "prescribed."

- In addition to the general definitions that apply to the entire Tax Bill, specific definitions for particular chapters or sub-chapters have been provided at the end of those chapters or sub-chapters. The language of certain definitions in the Tax Bill, including those for "business connection" and "associated enterprises," will require careful evaluation.

- Explanations and provisos to sections and sub-sections have been converted into sub-sections. Various sections from the IT Act have been represented in tabular form. This includes provisions for: (i) calculating salary income and deductions; (ii) the dates when specified businesses can commence their operations for claiming deductions for capital expenses; (iii) tax deductions at source for various payments, (iv) determining the cost of acquisition of a capital asset in specific situations; and (v) the presumptive tax regime.

B. **Obsolete sections:** Various outdated sections have been removed, such as those related to investment allowances on new plant and machinery, fringe benefits tax, dividend distribution tax, pre-emptive purchase of immovable property by the Indian government, etc.

C. **Tax Deduction at Source**: Presently, as per the IT Act, there are various provisions relating to tax deduction at source ("TDS") wherein different rates and thresholds have been provided depending on the nature of payment or status of payees. The Tax Bill proposes to comprehensively overhaul the structure by consolidating them into a single section (except for TDS on salary) wherein all TDS provisions are categorized into three broad heads as follows: (i) TDS on payments to residents; (ii) TDS on payments to non-residents; and (iii) TDS on payments to any person (residents, non-residents or both). For each category, TDS provisions have been consolidated into a single table for ease of identification of the applicable rates, thresholds, payees, and the nature of payments on which TDS will get attracted.

D. **Tax in special cases**: Certain chapters relating to the determination of tax in special cases, minimum alternate tax, and tax on shipping companies, have been combined into one chapter.

E. **Exempt incomes:** Certain provisions relating to tax exempt incomes, including the existing Section 10 of the IT Act, have been moved into six (6) different schedules.

F. **Tax rates, computation of Income:** The tax rates, computation of business profits, the capital gains tax regime, and the taxation of mergers and acquisitions are largely aligned with current provisions of the IT Act.

G. **Amendments proposed by the Finance Bill, 2025:** Most of the amendments proposed by the Finance Bill, 2025, have been incorporated into the Tax Bill, with a few exceptions. One notable exception is the proposed extension of the sunset date for tax neutral relocation of offshore or original funds to resultant funds in the IFSC, which has

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not been included and remains set at March 31, 2025.

H. **New tax rules to be specified:** Many provisions in the Tax Bill will require specific rules to be prescribed, which are likely to be released separately.

I. **Transfer pricing**: Except for a few clarificatory modifications to the language, the transfer pricing framework remains the same. No changes have been proposed in the timelines, compliances, procedural aspects, and penalty provisions. The Finance Minister, in her Budget speech, had stated that the safe harbour rules will be expanded to reduce litigation and enhance certainty. However, no amendments have been made to the safe harbour provisions in the Tax Bill.

Our comments

The Tax Bill broadly aligns with the existing provisions of the IT Act. The FAQs released along with the Tax Bill are welcome and provide much-needed clarity and simplify the tax provisions. The consolidation of definitions, elimination of redundant provisions, and extensive use of tables and formulae enhance the tax law's readability and understanding. A detailed comparative analysis of the provisions proposed in the Tax Bill may reveal certain interpretative issues, which will have to be addressed in the future. It will be interesting to see how notifications or circulars that were issued under the IT Act, as well as decisions rendered by various courts, will apply to provisions in the Tax Bill that are worded in an identical or similar fashion.

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